

PUBLIC DISCLOSURE

FEBRUARY 21, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**WATERTOWN MUNICIPAL CREDIT UNION
CERT # 67615**

**149 MAIN STREET
WATERTOWN, MA 02172**

**Division of Banks
1000 Washington Street, 10th Floor
Boston, MA 02118**

<p>NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Massachusetts Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Watertown Municipal Credit Union (or the "Credit Union")** prepared by the Division, the institution's supervisory agency, as of **February 21, 2012**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in 209 CMR 46.00.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."

This evaluation is based on the Small Institution CRA evaluation procedures specified for institutions with assets under \$290 million. A summary of the Credit Union's performance is provided below. The rating of this institution is based upon the results of a review under the criterion as shown in the public evaluation.

- The Credit Union's net loan-to-share ratio for the previous eight quarters is satisfactory given the Credit Union's size, financial condition, and the credit needs of its assessment area.
- The Credit Union demonstrates a satisfactory level of lending to members of different income levels.
- Fair lending policies and practices are considered satisfactory. No weight was given to complaints, as none have been received by the Credit Union since the prior examination.

SCOPE OF THE EXAMINATION

The assessment of Watertown Municipal Credit Union's record takes into account its financial capacity and size, any legal impediments and local economic conditions and demographics, including the competitive environment in which it operates.

According to CRA regulations, an institution shall delineate one or more assessment areas by which the institution will serve to meet the credit needs and by which the Division will evaluate the institution's CRA performance. Credit unions whose membership by-laws provisions are not based upon residence are permitted to designate its membership as its assessment area. Therefore, since the Credit Union has defined its membership as its assessment area as opposed to a geographic area, an evaluation of credit extended within defined geographic areas was not conducted; as such an analysis would not be meaningful. Therefore, this evaluation was based upon an analysis of the Credit Union's performance in providing loans to its membership; net loan-to-share ratio; providing loans to individuals of various incomes, including low- to moderate-income members; and the Credit Union's fair lending performance.

PERFORMANCE CONTEXT

Description of Institution

Watertown Municipal Credit Union, founded in 1939, is a Massachusetts state chartered financial institution. The Credit Union's assets totaled \$11,468,583 as of December 31, 2011.

The Credit Union originates residential loans, automobile loans, and unsecured personal loans. The Credit Union's rates and terms and conditions are competitive with other credit unions of similar size and type.

The Credit Union has one office located at 149 Main Street in Watertown, Massachusetts. Office hours are from 9:00 a.m. to 4:00 p.m., Monday through Friday. During the summer, the Credit Union has shortened hours on Friday.

As of December 31, 2011, the Credit Union's loan portfolio totaled \$3,490,211 or 30.4 percent of the Credit Union's total assets. The largest portion of the loan portfolio is comprised of first-lien mortgage real estate loans/lines of credit with 72.5 percent, followed by other real estate loans/lines of credit with 12.5 percent, unsecured loans/lines of credit with 8.5 percent, new and used vehicle loans with 4.4 percent, and all other loans with 2.0 percent.

The Division last examined the Credit Union for compliance with the CRA on August 7, 2007. The examination resulted in a CRA rating of "Satisfactory". The Credit Union's assets have increased slightly from \$11,379,329 since the previous examination.

Description of Assessment Area

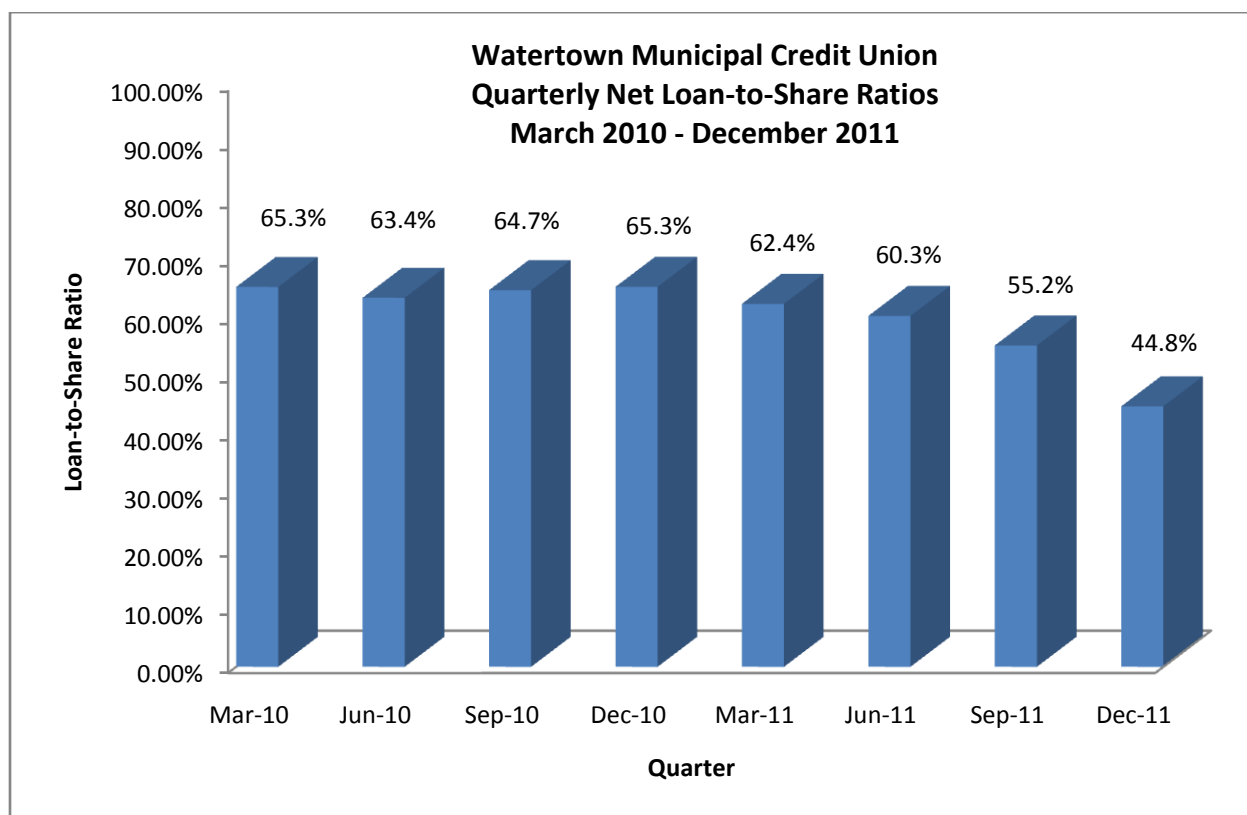
In accordance with the requirements of 209 CMR 46.41, the Credit Union defines its membership as its assessment area. According to its by-laws, membership in this Credit Union is limited to permanent full-time, permanent part-time, retired, appointed and elected officials of the Town of Watertown. Members of their immediate families may also join. As of the examination date, Watertown Municipal Credit Union had 920 members.

PERFORMANCE CRITERIA

1. LOAN TO SHARE ANALYSIS

Based upon the Credit Union's asset size, its capacity to lend, and the credit needs of the membership, the analysis of the Credit Union's net loan-to-share ratio indicates that the Credit Union meets the standards for satisfactory performance.

A comparative analysis of the Credit Union's net loan-to-share (LTS) ratio was performed using National Credit Union Administration ("NCUA") quarterly call report data for the period ending March 31, 2010 through December 31, 2011. The analysis was conducted to determine the extent of the Credit Union's lending compared to shares received from its membership. The average net LTS for the period reviewed was 60.2 percent. This ratio is based on loans net of unearned income and net of the allowance for loan and lease losses as a percentage of the total shares. As illustrated in the chart below, the Credit Union's ratios have been on a downward trend with a high of 65.3 percent in March 2010, to a low of 44.8 percent in December 2011.



Source: NCUA Call Reports

As illustrated in the above chart, the net LTS ratios have decreased each quarter from December 2010 through December 2011. From March 2010 through December 2011, net loans have decreased in each quarter, with an overall decrease of \$1,685,614 or 32.6 percent. During this time period, deposits decreased \$130,804, or 1.7 percent. Discussions with management regarding the decreasing LTS ratio concluded that the competitive rates from national lenders have caused many of their members to search elsewhere for loans, as well as paying off their current mortgages at the credit union to refinance at the lower rates.

Based on the preceding information, the Credit Union's performance level is considered satisfactory.

2. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

The Credit Union's lending, based upon the analysis of consumer loans by borrower income, meets the standards for satisfactory performance in providing credit to members of all income levels.

During the review period, the Credit Union did not originate real-estate secured loans. Therefore, a sample of the Credit Union's consumer loan data for calendar year 2010 and 2011 was analyzed in order to determine the distribution of credit based upon the income level of borrowers. The loan sample consisted of unsecured personal loans, and new and used automobile loans. This examination compares the borrower's income to the median family income for the Metropolitan Statistical Area ("MSA") in which the borrower resides. The borrower income analysis was based on the median family incomes for the Cambridge-Newton-Framingham Metropolitan Division ("MD") for 2010 and 2011 which was \$98,700 and \$105,000, respectively.

The four income categories that define the income level of borrowers include low-, moderate-, middle-, and upper-income. The analysis of borrower income level was identified as the ratio of borrower income to the Median Family Income for the MSA or MD. As defined by the U.S. Department of Housing and Urban Development (HUD), low-income is defined as income level or area that earns less than 50 percent of the MSA's median family income. Moderate-income is defined as income level or area that earns at least 50 percent and less than 80 percent of the MSA's median family income. Middle-income is defined as income level or area that earns at least 80 percent and less than 120 percent of the MSA's median family income, while upper-income is defined as income level or area that is equal to or greater than 120 percent of the MSA's median family income.

A review of 20 loans, 6 loans for 2010 and 14 loans for 2011, was conducted to determine the borrower's income level. Of the 6 loans for 2010, 1 or 16.7 percent was originated to low-income members, 1 or 16.7 percent was originated to moderate-income members, 3 or 50.0 percent were originated to middle-income members and 1 or 16.7 percent was originated to upper-income members. Of the 14 loans for 2011, 1 or 7.1 percent was originated to low-income members, 7 or 50.0 percent were originated to moderate-income members, 5 or 35.8 percent were originated to middle-income members, and 1 or 7.1 percent loans was originated to upper-income members.

Based upon the analysis of borrower income, the Credit Union demonstrates a satisfactory level of performance in providing loans to borrowers of different incomes.

3. REVIEW OF COMPLAINTS AND FAIR LENDING POLICIES AND PRATICES

Based upon the review of the Credit Union's performance relative to fair lending policies and practices, the Credit Union meets the standards for satisfactory performance.

Review of Complaints

There was no indication that the Credit Union received any complaints pertaining to its CRA performance since the previous examination.

Fair Lending Policies and Practices

A review was conducted for compliance with fair lending regulations, and no evidence of disparate or impact treatment was revealed. The Credit Committee reviews and approves all loan decisions to assure that all loans are being granted in accordance with the guidelines set forth by this committee.

PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 149 Main Street, Watertown, MA 02172."
- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.